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DEPARTMENT FOR EUR/FO AND EUR/CE; PLEASE PASS TO NSC FOR
ADAM STERLING

E.O. 12958: DECL: 10/26/2018
TAGS: [PREL](#) [ENRG](#) [ECON](#) [HU](#)
SUBJECT: SOUTHERN COMFORT: ECONOMIC VULNERABILITY,
POLITICAL PRESSURE AND SOUTH STREAM

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (S) Information developed by other agencies and passed to the Department via their channels indicates renewed and covert contacts between senior GoH officials and Russian intelligence officers.

VERES IN THE LEAD

¶2. (S) As the GoH works to finalize an extraordinary international financial stabilization package, we are concerned that the nation's economic straits (reftel) and the Prime Minister's political vulnerability will prompt the GoH to conclude an agreement with Moscow in exchange for Russian financial support. Given Finance Minister Veres' leading role in the discussions with Russian representatives, the GoH could be taking the next) or even the final) step on South Stream. Veres has taken the lead in recent contacts on South Stream, and in light of the complete lack of transparency in this latest approach we fear in particular that he could be putting strategic assets such as Hungary's electricity parastatal on the table.

HUNGARY IN THE DARK

¶3. (S) Whatever they are doing, they are keeping it from us and from their own public. Although press reports indicate that Prime Minister Gyurcsany spoke with Putin last week to "reaffirm" their economic and commercial relationship, even the National Security Advisor professes not to know the full extent of their conversation. Largely marginalized from decisions on South Stream as the government has elevated short-term survival over long-term strategy, Banai has complained that he is not fully aware of what "others" in the government are doing.

GYURCSANY STAYING IN POWER

¶4. (S) In a discussion October 27, Banai told Ambassador Foley October 27 that a Hungarian commitment on South Stream could be imminent. Asking if the USG might look more favorably on a Hungarian commitment to South Stream if it were far removed from their planned Nabucco Summit in January, Banai warned "saying yes might mean that they announce the deal tomorrow." He went further still in a private pull-aside, confiding that Hungary's position on South Stream is linked to "Gyurcsany staying in power."

NOT IN OUR INTERESTS (

¶5. (S) Hungarian officials will doubtless argue that other Allies have done much the same with regard to South Stream. But we must recognize that any further steps would be contrary to the specific requests made in President Bush's letter to Prime Minister Gyurcsany, to our broader appeal to

Allies to suspend "business as usual" with Moscow, and to Hungarian officials' repeated assurances that Nabucco is Budapest's priority. In sum, such a step could not be explained as a "misunderstanding."

OR IN HUNGARY'S

16. (S) Indeed, we believe the markets would understand only too well the signal being sent: that Hungary is prepared to mortgage its future rather than deal with its long-standing problems. Although Banai was at pains to emphasize the government's commitment to sending the right signals to the market, he conceded that "some will regard any foreign investment as positive right now." Although the government may feel that desperate times call for such desperate measures, we believe the long-term impact of any further steps toward Moscow would leave an already unstable situation further suspect in the eyes of the international investors they need now more than ever.

17. (S) We recognize that the information available to Washington could support alternative conclusions. We do not believe, however, that any of these alternatives could be viewed as benign, much less positive. Nor do we believe that the GoH will reverse its course absent senior engagement from Washington. We accordingly request the Department's guidance.

Foley